

Westpac Banking Corporation - New Zealand Banking Group **Disclosure Statement**

For the six months ended 31 March 2015



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General information and definitions

Certain information contained in this Disclosure Statement is required by section 81 of the Reserve Bank of New Zealand Act 1989 ('**Reserve Bank Act**') and the Registered Bank Disclosure Statements (Overseas Incorporated Registered Banks) Order 2014 ('**Order**').

In this Disclosure Statement, reference is made to five main reporting groups:

- Westpac Banking Corporation New Zealand Branch (otherwise referred to as the '**NZ Branch**') – refers to the New Zealand Branch of Westpac Banking Corporation (trading as Westpac);
- Westpac New Zealand Limited (otherwise referred to as '**Westpac New Zealand**') – refers to a locally incorporated subsidiary of the Overseas Bank (carrying on the Overseas Bank's New Zealand consumer, business and institutional banking operations);
- Westpac Banking Corporation – New Zealand Banking Group (otherwise referred to as the '**NZ Banking Group**') – refers to the New Zealand operations of Westpac Banking Corporation Group including those entities whose business is required to be reported in the financial statements of the Overseas Banking Group's New Zealand business;
- Westpac Banking Corporation (otherwise referred to as the '**Overseas Bank**') – refers to the worldwide activities of Westpac Banking Corporation excluding its controlled entities; and
- Westpac Banking Corporation Group (otherwise referred to as the '**Overseas Banking Group**') – refers to the total worldwide business of Westpac Banking Corporation including its controlled entities.

Words and phrases not defined in this Disclosure Statement, but defined by the Order, have the meaning given by the Order when used in this Disclosure Statement. All amounts referred to in this Disclosure Statement are in New Zealand dollars unless otherwise stated.

Limits on material financial support by the ultimate parent bank

Since 30 September 2014 there has been no material change in regulations, legislation, or other restrictions of a legally enforceable nature that may materially inhibit the legal ability of the Overseas Bank to provide material financial support to the NZ Branch. The Australian Prudential Regulation Authority ('**APRA**') has however initiated a process to reduce Australian bank non-equity exposures to their respective New Zealand banking subsidiaries and branches, so that these non-equity exposures are minimised during ordinary times. The details of this process are yet to be finalised but may impact the amount of non-equity financial support that is provided by the Overseas Bank in the future. The Overseas Bank will work with APRA and the NZ Branch to adjust funding over time as required.

General matters

Directors

The Directors of the Overseas Bank at the time this Disclosure Statement was signed were:

Lindsay Philip Maxsted, DipBus (Gordon), FCA, FAICD – Chairman

Brian Charles Hartzler, BA, CFA – Managing Director & Chief Executive Officer

Elizabeth Blomfield Bryan AM, BA (Econ.), MA (Econ.)

Ewen Graham Wolseley Crouch AM, BEc (Hons.), LLB, FAICD

Catriona Alison Deans, BA, MBA, GAICD

Robert George Elstone, BA (Hons.), MA (Econ.), MCom

Peter John Oswin Hawkins, BCA (Hons.), SF Fin, FAIM, ACA (NZ), FAICD

Peter Ralph Marriott, BEc (Hons.), FCA

Changes to the Directorate

The following changes in the composition of the Overseas Bank's Board of Directors (the '**Board**') have been effected since 30 September 2014:

- Ann Pickard retired from the Board on 12 December 2014;
- Gail Kelly retired as Managing Director on 1 February 2015;
- Brian Hartzler was appointed as Managing Director on 2 February 2015; and
- Craig Dunn was appointed to the Board effective 1 June 2015.

Chief Executive Officer, NZ Branch

Karen Lee Ann Silk, B.Com

Responsible person

All the Directors named above have authorised in writing David Alexander McLean, Chief Executive, Westpac New Zealand to sign this Disclosure Statement on the Directors' behalf in accordance with section 82 of the Reserve Bank Act.

Auditors

PricewaterhouseCoopers

PricewaterhouseCoopers Tower

188 Quay Street

Auckland, New Zealand

Credit ratings

The Overseas Bank has the following credit ratings with respect to its long-term senior unsecured obligations, including obligations payable in New Zealand in New Zealand dollars, as at the date this Disclosure Statement was signed:

Rating Agency	Current Credit Rating	Rating Outlook
Fitch Ratings	AA-	Stable
Moody's Investors Service	Aa2	Stable
Standard & Poor's	AA-	Stable

A credit rating is not a recommendation to buy, sell or hold securities of the Overseas Bank. Such ratings are subject to revision, qualification, suspension or withdrawal at any time by the assigning rating agency. Investors in the Overseas Bank's securities are cautioned to evaluate each rating independently of any other rating.

Disclosure statements of the Overseas Bank and the financial statements of the Overseas Bank and the Overseas Banking Group

Disclosure Statements of the Overseas Bank for the last five years are available, free of charge, at the internet address www.westpac.co.nz. A printed copy will also be made available, free of charge, upon request and will be dispatched by the end of the second working day after the day on which the request is made.

The most recently published financial statements of the Overseas Bank and the Overseas Banking Group are for the year ended 30 September 2014 and for the six months ended 31 March 2015, respectively, and can be accessed at the internet address www.westpac.com.au.

Guarantee arrangements

No material obligations of the Overseas Bank that relate to the NZ Branch are guaranteed as at the date this Disclosure Statement was signed.

Pending proceedings or arbitration

There are no pending legal proceedings or arbitration at the date of this Disclosure Statement involving any member of the NZ Banking Group, whether in New Zealand or elsewhere, that may have a material adverse effect on the Overseas Bank or the NZ Banking Group.

The Overseas Banking Group has worldwide contingent liabilities in respect of actual and potential claims and proceedings, which have not been determined. An assessment of the Overseas Banking Group's likely loss is made on a case-by-case basis and provisions are made where appropriate. Such contingencies are disclosed in the Overseas Banking Group's 30 September 2014 Annual Financial Report and 31 March 2015 Interim Financial Report.

Conditions of registration

There have been no changes to the NZ Banking Group's conditions of registration since 31 December 2014.

Directors' and the Chief Executive Officer, NZ Branch's statement

Each Director of the Overseas Bank believes and the Chief Executive Officer, NZ Branch, believes, after due enquiry, that, as at the date on which this Disclosure Statement is signed, the Disclosure Statement:

- a) contains all information that is required by the Order; and
- b) is not false or misleading.

Each Director of the Overseas Bank believes and the Chief Executive Officer, NZ Branch, believes, after due enquiry, that, over the six months ended 31 March 2015:

- a) the Overseas Bank has complied with the conditions of registration imposed on it pursuant to section 74 of the Reserve Bank Act; and
- b) the NZ Branch and other members of the NZ Banking Group had systems in place to monitor and control adequately the material risks of relevant members of the NZ Banking Group, including credit risk, concentration of credit risk, interest rate risk, currency risk, equity risk, liquidity risk and other business risks and that those systems were being properly applied. For this purpose, a relevant member of the NZ Banking Group means a member of the NZ Banking Group that is not a member of Westpac New Zealand's banking group.

This Disclosure Statement has been signed on behalf of the Directors by David Alexander McLean, Chief Executive, Westpac New Zealand, and by Karen Lee Ann Silk, as Chief Executive Officer, NZ Branch.



David Alexander McLean



Karen Lee Ann Silk

Dated this the 25th day of May 2015

Consolidated income statement for the six months ended 31 March 2015

\$ millions	Note	NZ Banking Group		
		Six Months Ended 31-Mar-15 Unaudited	Six Months Ended 31-Mar-14 Unaudited	Year Ended 30-Sep-14 Audited
Interest income		2,219	1,928	4,037
Interest expense		(1,353)	(1,159)	(2,447)
Net interest income		866	769	1,590
Non-interest income	2	284	336	677
Net operating income		1,150	1,105	2,267
Operating expenses		(442)	(434)	(868)
Impairment charges on loans	3	(31)	(3)	(26)
Operating profit		677	668	1,373
Share of profit of associate accounted for using the equity method		-	-	1
Profit before income tax expense		677	668	1,374
Income tax expense		(186)	(172)	(355)
Profit after income tax expense		491	496	1,019
Profit after income tax expense attributable to:				
Head office account and owners of the NZ Banking Group		490	495	1,016
Non-controlling interests		1	1	3
		491	496	1,019

The accompanying notes (numbered 1 to 20) form part of, and should be read in conjunction with, these financial statements.

Consolidated statement of comprehensive income for the six months ended 31 March 2015

\$ millions	NZ Banking Group		
	Six Months	Six Months	Year
	Ended	Ended	Ended
	31-Mar-15	31-Mar-14	30-Sep-14
	Unaudited	Unaudited	Audited
Profit after income tax expense	491	496	1,019
Other comprehensive income/(expense) which may be reclassified subsequently to the income statement:			
Available-for-sale securities:			
Net unrealised gains from changes in fair value of available-for-sale securities	3	23	24
Transferred to the income statement (refer to Note 2)	-	(48)	(88)
Exchange differences	-	(2)	(3)
Income tax effect	(1)	(3)	(4)
Cash flow hedges:			
Net (losses)/gains from changes in fair value of cash flow hedges	(100)	26	(52)
Transferred to the income statement	8	(7)	49
Income tax effect	26	(5)	1
Total other comprehensive (expense) which may be reclassified subsequently to the income statement	(64)	(16)	(73)
Other comprehensive (expense)/income which will not be reclassified subsequently to the income statement:			
Remeasurement of employee defined benefit obligations	(7)	-	4
Income tax effect	2	-	(1)
Total other comprehensive (expense)/income which will not be reclassified subsequently to the income statement	(5)	-	3
Total other comprehensive (expense) net of tax	(69)	(16)	(70)
Total comprehensive income	422	480	949
Total comprehensive income attributable to:			
Head office account and owners of the NZ Banking Group	421	479	946
Non-controlling interests	1	1	3
	422	480	949

The accompanying notes (numbered 1 to 20) form part of, and should be read in conjunction with, these financial statements.

Consolidated statement of changes in equity for the six months ended 31 March 2015

	NZ Banking Group								
	NZ Branch		Other members of the NZ Banking Group						Total Equity
	Head Office Account		Ordinary Share Capital	Retained Profits	Available-for-sale Securities Reserve	Cash Flow Hedge Reserve	Total before Non-controlling Interests	Non-controlling Interests	
\$ millions	Branch Capital	Retained Profits							
As at 1 October 2013 (Audited)	1,300	339	139	2,895	106	12	4,791	6	4,797
Six months ended 31 March 2014 (Unaudited)									
Profit after income tax expense	-	48	-	447	-	-	495	1	496
Net gains from changes in fair value	-	-	-	-	23	26	49	-	49
Income tax effect	-	-	-	-	(3)	(7)	(10)	-	(10)
Exchange differences	-	-	-	-	(2)	-	(2)	-	(2)
Income tax effect	-	-	-	-	-	-	-	-	-
Transferred to the income statement	-	-	-	-	(48)	(7)	(55)	-	(55)
Income tax effect	-	-	-	-	-	2	2	-	2
Total comprehensive income for the six months ended 31 March 2014	-	48	-	447	(30)	14	479	1	480
Transactions with owners:									
Aggregation of new entities	-	-	4	-	-	-	4	-	4
Dividends paid on ordinary shares	-	-	-	-	-	-	-	(3)	(3)
As at 31 March 2014 (Unaudited)	1,300	387	143	3,342	76	26	5,274	4	5,278
Year ended 30 September 2014 (Audited)									
Profit after income tax expense	-	111	-	905	-	-	1,016	3	1,019
Net gains/(losses) from changes in fair value	-	-	-	-	24	(52)	(28)	-	(28)
Income tax effect	-	-	-	-	(4)	15	11	-	11
Exchange differences	-	-	-	-	(3)	-	(3)	-	(3)
Income tax effect	-	-	-	-	-	-	-	-	-
Transferred to the income statement	-	-	-	-	(88)	49	(39)	-	(39)
Income tax effect	-	-	-	-	-	(14)	(14)	-	(14)
Remeasurement of employee defined benefit obligations	-	-	-	4	-	-	4	-	4
Income tax effect	-	-	-	(1)	-	-	(1)	-	(1)
Total comprehensive income for the year ended 30 September 2014	-	111	-	908	(71)	(2)	946	3	949
Transactions with owners:									
Aggregation of new entities	-	-	4	-	-	-	4	-	4
Dividends paid on ordinary shares	-	-	-	(248)	-	-	(248)	(3)	(251)
As at 30 September 2014 (Audited)	1,300	450	143	3,555	35	10	5,493	6	5,499
Six months ended 31 March 2015 (Unaudited)									
Profit after income tax expense	-	31	-	459	-	-	490	1	491
Net gains/(losses) from changes in fair value	-	-	-	-	3	(100)	(97)	-	(97)
Income tax effect	-	-	-	-	(1)	28	27	-	27
Exchange differences	-	-	-	-	-	-	-	-	-
Income tax effect	-	-	-	-	-	-	-	-	-
Transferred to the income statement	-	-	-	-	-	8	8	-	8
Income tax effect	-	-	-	-	-	(2)	(2)	-	(2)
Remeasurement of employee defined benefit obligations	-	-	-	(7)	-	-	(7)	-	(7)
Income tax effect	-	-	-	2	-	-	2	-	2
Total comprehensive income for the six months ended 31 March 2015	-	31	-	454	2	(66)	421	1	422
Transactions with owners:									
Dividends paid on ordinary shares	-	-	-	(151)	-	-	(151)	(5)	(156)
As at 31 March 2015 (Unaudited)	1,300	481	143	3,858	37	(56)	5,763	2	5,765

The accompanying notes (numbered 1 to 20) form part of, and should be read in conjunction with, these financial statements.

Consolidated balance sheet as at 31 March 2015

\$ millions	Note	NZ Banking Group		
		31-Mar-15 Unaudited	31-Mar-14 Unaudited	30-Sep-14 Audited
Assets				
Cash and balances with central banks		1,600	1,666	1,927
Due from other financial institutions		646	259	591
Trading securities and other financial assets designated at fair value	4	3,666	5,127	3,514
Derivative financial instruments		3,419	3,552	4,180
Available-for-sale securities		3,520	2,691	3,010
Loans	5, 6	67,108	63,604	65,027
Life insurance assets		246	266	297
Due from related entities		1,210	1,064	1,770
Investment in associate		48	48	48
Property, plant and equipment		163	164	178
Deferred tax assets		155	128	120
Current tax assets		7	23	-
Goodwill and other intangible assets		704	729	715
Other assets		299	265	301
Total assets		82,791	79,586	81,678
Liabilities				
Due to other financial institutions		359	399	1,141
Deposits and other borrowings	7	52,909	49,665	50,570
Other financial liabilities at fair value through income statement	8	363	1,202	1,072
Derivative financial instruments		4,993	3,591	4,123
Debt issues	9	12,684	12,257	12,592
Current tax liabilities		-	-	30
Provisions		73	76	87
Other liabilities		543	722	697
Total liabilities excluding related entities liabilities		71,924	67,912	70,312
Subordinated debentures		728	652	710
Due to related entities		4,374	5,744	5,157
Total related entities liabilities		5,102	6,396	5,867
Total liabilities		77,026	74,308	76,179
Net assets		5,765	5,278	5,499
Equity				
Head office account				
Branch capital		1,300	1,300	1,300
Retained profits		481	387	450
Total head office account		1,781	1,687	1,750
NZ Banking Group equity				
Ordinary share capital		143	143	143
Retained profits		3,858	3,342	3,555
Available-for-sale securities reserve		37	76	35
Cash flow hedge reserve		(56)	26	10
Total equity attributable to owners of the NZ Banking Group		3,982	3,587	3,743
Non-controlling interests		2	4	6
Total equity		5,765	5,278	5,499
Interest earning and discount bearing assets		77,225	73,664	74,494
Interest and discount bearing liabilities		66,624	65,269	66,117

The accompanying notes (numbered 1 to 20) form part of, and should be read in conjunction with, these financial statements.

Consolidated statement of cash flows for the six months ended 31 March 2015

\$ millions	NZ Banking Group		
	Six Months Ended 31-Mar-15 Unaudited	Six Months Ended 31-Mar-14 Unaudited	Year Ended 30-Sep-14 Audited
Cash flows from operating activities			
Interest income received	2,220	1,912	4,013
Interest expense paid	(1,367)	(1,165)	(2,441)
Non-interest income received	278	267	560
Operating expenses paid	(406)	(394)	(774)
Income tax paid	(231)	(200)	(318)
Cash flows from operating activities before changes in operating assets and liabilities	494	420	1,040
Net (increase)/decrease in:			
Due from other financial institutions	(441)	(38)	(2)
Trading securities and other financial assets designated at fair value	(135)	(598)	973
Loans	(2,112)	(1,590)	(3,036)
Due from related entities	(308)	(89)	(138)
Other assets	1	(5)	(3)
Net increase/(decrease) in:			
Due to other financial institutions	(782)	64	806
Deposits and other borrowings	2,302	1,468	2,392
Other financial liabilities at fair value through income statement	(709)	704	574
Other liabilities	10	16	(2)
Net movement in external and related entity derivative financial instruments	1,358	(350)	(306)
Net cash (used in)/provided by operating activities	(322)	2	2,298
Cash flows from investing activities			
Purchase of available-for-sale securities	(617)	(43)	(430)
Proceeds from maturities/sale of available-for-sale securities	65	83	171
Net decrease/(increase) in life insurance assets	51	23	(8)
Purchase of capitalised computer software	(21)	(38)	(59)
Purchase of property, plant and equipment	(3)	(6)	(39)
Net cash (used in)/provided by investing activities	(525)	19	(365)
Cash flows from financing activities			
Net increase in debt issues	540	897	736
Net decrease in due to related entities	(250)	(1,049)	(1,923)
Dividends paid to ordinary shareholders	(151)	-	(251)
Dividends paid to minority shareholders	(5)	(3)	-
Net cash provided by/(used in) financing activities	134	(155)	(1,438)
Net (decrease)/increase in cash and cash equivalents	(713)	(134)	495
Cash and cash equivalents at beginning of the period/year	2,343	1,848	1,848
Cash and cash equivalents at end of the period/year	1,630	1,714	2,343
Cash and cash equivalents at end of the period/year comprise:			
Cash and balances with central banks	1,600	1,666	1,927
Due from other financial institutions	30	48	416
Cash and cash equivalents at end of the period/year	1,630	1,714	2,343

The accompanying notes (numbered 1 to 20) form part of, and should be read in conjunction with, these financial statements.

Note 1 Statement of accounting policies

Statutory base

In these financial statements reference is made to the following reporting entities:

- Westpac Banking Corporation New Zealand Branch (otherwise referred to as the '**NZ Branch**') – refers to the New Zealand Branch of Westpac Banking Corporation (trading as Westpac);
- Westpac New Zealand Limited (otherwise referred to as '**Westpac New Zealand**') – refers to a locally incorporated subsidiary of the Overseas Bank (carrying on the Overseas Bank's New Zealand consumer, business and institutional banking operations);
- Westpac Banking Corporation - New Zealand Banking Group (otherwise referred to as the '**NZ Banking Group**') – refers to the New Zealand operations of Westpac Banking Corporation Group including those entities whose business is required to be reported in the financial statements of the Overseas Banking Group's New Zealand business;
- Westpac Banking Corporation (otherwise referred to as the '**Overseas Bank**') – refers to the worldwide activities of Westpac Banking Corporation excluding its controlled entities; and
- Westpac Banking Corporation Group (otherwise referred to as the '**Overseas Banking Group**') – refers to the total worldwide business of Westpac Banking Corporation including its controlled entities.

These consolidated financial statements have been prepared and presented in accordance with the Reserve Bank of New Zealand Act 1989 ('**Reserve Bank Act**') and the Registered Bank Disclosure Statements (Overseas Incorporated Registered Banks) Order 2014 ('**Order**').

These financial statements have also been prepared in accordance with Generally Accepted Accounting Practice in New Zealand, as appropriate for profit-oriented entities, and the New Zealand Equivalent to International Accounting Standard ('**NZ IAS**') 34 *Interim Financial Reporting* ('**NZ IAS 34**') and should be read in conjunction with the Disclosure Statement for the year ended 30 September 2014 and for the three months ended 31 December 2014. These financial statements comply with International Accounting Standard 34 *Interim Financial Reporting* as issued by the International Accounting Standards Board.

In preparing these financial statements, the application of the NZ Banking Group's accounting policies requires the use of judgments, estimates and assumptions. During the period, the NZ Banking Group has made a number of methodology changes to derivative valuations. These changes include introducing a Funding Valuation Adjustment ('**FVA**') to the fair value of derivatives. The impact of these changes is a reduction to non-interest income of \$15 million (pre-tax). This item will reduce trading income. Other than these changes, the areas of judgment, estimates and assumptions in the financial statements, including the key sources of estimation uncertainty, are consistent with those in the Disclosure Statement for the year ended 30 September 2014.

As outlined in the Disclosure Statement for the year ended 30 September 2014, Amendments to NZ IAS 32 *Financial Instruments: Presentation* ('**NZ IAS 32**') - *Offsetting Financial Assets and Financial Liabilities* was issued in February 2012 and is effective for the 30 September 2015 financial year. The amendment provides guidance to applying the offsetting criteria provided in NZ IAS 32, including clarifying that the meaning of 'current legal enforceable rights of set-off' is legally enforceable in all circumstances and that some gross settlement systems (such as through a clearing house) may be considered as the equivalent to net settlement. The amendment does not have a material impact on the NZ Banking Group.

These financial statements were authorised for issue by the Overseas Bank's Board of Directors (the '**Board**') on 25 May 2015. The Board has the power to amend the financial statements after they are authorised for issue.

Basis of preparation

The financial statements are based on the general principles of historical cost accounting, as modified by applying fair value accounting to available-for-sale financial assets, financial assets and financial liabilities at fair value through profit or loss and all financial derivative contracts. The going concern concept and the accrual basis of accounting have been adopted. All amounts are expressed in New Zealand dollars unless otherwise stated.

The same accounting policies and methods of computation have been followed in preparing these financial statements as were used in preparing the financial statements for the year ended 30 September 2014, except as amended for the changes as explained in the 'Statutory base' section.

Certain comparative information has been restated to ensure consistent treatment with the current reporting period. Where there has been a material restatement of comparative information the nature of, and the reason for, the restatement is disclosed in the relevant note.

Notes to the financial statements

Note 2 Non-interest income

\$ millions	NZ Banking Group		
	Six Months Ended 31-Mar-15 Unaudited	Six Months Ended 31-Mar-14 Unaudited	Year Ended 30-Sep-14 Audited
Fees and commissions			
Transaction fees and commissions	106	112	226
Lending fees (loan and risk)	33	33	68
Other non-risk fee income	20	19	38
Total fees and commissions	159	164	332
Wealth management revenue			
Fees from trust and other fiduciary activities	19	17	34
Net life insurance income and change in policy liabilities	52	47	97
Total wealth management revenue	71	64	131
Trading income			
Foreign exchange trading	52	44	88
Interest rate trading	(7)	11	29
Total trading income	45	55	117
Net ineffectiveness on qualifying hedges	-	-	3
Other non-interest income			
Dividend income	-	1	2
Gain on sale of available-for-sale securities ¹	-	48	88
Other	9	4	4
Total other non-interest income	9	53	94
Total non-interest income	284	336	677

¹ During the year ended 30 September 2014, Westpac New Zealand realised a gain of \$88 million upon the sale of its holdings of available-for-sale overseas equity securities. Of this gain, \$48 million was realised in the six months ended 31 March 2014 in respect of available-for-sale overseas equity securities which were sold to third parties. The remaining gain was realised in respect of available-for-sale overseas equity securities which were sold to the Overseas Bank.

Note 3 Impairment charges on loans

\$ millions	NZ Banking Group			Total
	Residential Mortgages	Other Loans for Consumer Purposes	Loans for Business Purposes	
Six months ended 31 March 2015 (Unaudited)				
Collectively assessed provisions	(6)	13	(6)	1
Individually assessed provisions	6	-	19	25
Bad debts written-off/(recovered) directly to the income statement	1	17	(1)	17
Interest adjustments	(2)	(5)	(5)	(12)
Total impairment (recoveries)/charges on loans	(1)	25	7	31
Six months ended 31 March 2014 (Unaudited)				
Collectively assessed provisions	1	9	(5)	5
Individually assessed provisions	6	-	(10)	(4)
Bad debts written-off/(recovered) directly to the income statement	1	20	(4)	17
Interest adjustments	(2)	(5)	(8)	(15)
Total impairment charges/(recoveries) on loans	6	24	(27)	3
Year ended 30 September 2014 (Audited)				
Collectively assessed provisions	(2)	4	(27)	(25)
Individually assessed provisions	7	-	32	39
Bad debts written-off/(recovered) directly to the income statement	2	38	(1)	39
Interest adjustments	(3)	(10)	(14)	(27)
Total impairment charges/(recoveries) on loans	4	32	(10)	26

Notes to the financial statements

Note 4 Trading securities and other financial assets designated at fair value

\$ millions	NZ Banking Group		
	31-Mar-15 Unaudited	31-Mar-14 Unaudited	30-Sep-14 Audited
Certificates of deposit	1,754	2,548	1,421
Corporate bonds and asset backed securities	304	612	455
Mortgage-backed securities	160	3	46
NZ Government securities	678	1,235	836
Local authority and NZ public securities	586	355	379
Securities purchased under agreement to resell	184	374	377
Total trading securities and other financial assets designated at fair value	3,666	5,127	3,514

As at 31 March 2015, the NZ Banking Group had \$157 million of trading securities and other financial assets designated at fair value (31 March 2014: \$545 million, 30 September 2014: \$377 million) that were encumbered through repurchase agreements as part of standard terms of transactions with other banks.

Note 5 Loans

\$ millions	NZ Banking Group		
	31-Mar-15 Unaudited	31-Mar-14 Unaudited	30-Sep-14 Audited
Overdrafts	1,220	1,219	1,153
Credit card outstandings	1,445	1,380	1,405
Money market loans	1,156	1,052	1,082
Term loans:			
Housing	40,800	38,669	39,705
Non-housing	21,812	20,907	21,146
Other	1,136	832	978
Total gross loans	67,569	64,059	65,469
Provisions for impairment charges on loans	(461)	(455)	(442)
Total net loans	67,108	63,604	65,027

As at 31 March 2015, \$3,591 million of housing loans were used by the NZ Banking Group to secure the obligations of Westpac Securities NZ Limited ('WSNZL') under Westpac New Zealand's Global Covered Bond Programme ('CB Programme') (31 March 2014: \$3,712 million, 30 September 2014: \$4,002 million). These housing loans were not derecognised from Westpac New Zealand's financial statements in accordance with the accounting policies outlined in Note 1 to the financial statements included in the Disclosure Statement for the year ended 30 September 2014. As at 31 March 2015, the New Zealand dollar equivalent of bonds issued by WSNZL under the CB Programme was \$3,036 million (31 March 2014: \$2,089 million, 30 September 2014: \$3,360 million).

Notes to the financial statements

Note 6 Credit quality, impaired assets and provisions for impairment charges on loans

\$ millions	NZ Banking Group 31-Mar-15 (Unaudited)			Total
	Residential Mortgages	Other Loans for Consumer Purposes	Loans for Business Purposes	
Neither past due nor impaired	39,531	1,872	24,127	65,530
Past due assets				
Less than 30 days past due	971	104	181	1,256
At least 30 days but less than 60 days past due	117	22	32	171
At least 60 days but less than 90 days past due	53	11	5	69
At least 90 days past due	65	16	34	115
Total past due assets	1,206	153	252	1,611
Individually impaired assets¹				
Balance at beginning of the period	57	-	289	346
Additions	42	-	101	143
Amounts written off	(7)	-	(2)	(9)
Returned to performing or repaid	(29)	-	(23)	(52)
Balance at end of the period	63	-	365	428
Total gross loans²	40,800	2,025	24,744	67,569
Individually assessed provisions				
Balance at beginning of the period	19	-	125	144
Impairment charges on loans:				
New provisions	10	-	22	32
Recoveries	(1)	-	(1)	(2)
Reversal of previously recognised impairment charges on loans	(3)	-	(2)	(5)
Amounts written off	(7)	-	(2)	(9)
Interest adjustments	-	-	2	2
Balance at end of the period	18	-	144	162
Collectively assessed provisions				
Balance at beginning of the period	66	71	192	329
Impairment (recoveries)/charges on loans	(6)	13	(6)	1
Balance at end of the period	60	84	186	330
Total provisions for impairment charges on loans and credit commitments	78	84	330	492
Provision for credit commitments	-	-	(31)	(31)
Total provisions for impairment charges on loans	78	84	299	461
Total net loans	40,722	1,941	24,445	67,108

¹ The NZ Banking Group had undrawn commitments of \$57 million to counterparties for whom drawn balances are classified as individually impaired assets under loans for business purposes as at 31 March 2015.

² The NZ Banking Group did not have other assets under administration as at 31 March 2015.

Note 7 Deposits and other borrowings

\$ millions	NZ Banking Group		
	31-Mar-15 Unaudited	31-Mar-14 Unaudited	30-Sep-14 Audited
Deposits and other borrowings at fair value			
Certificates of deposit	1,456	1,307	1,154
Total deposits and other borrowings at fair value	1,456	1,307	1,154
Deposits and other borrowings at amortised cost			
Non-interest bearing, repayable at call	3,847	3,457	3,607
Other interest bearing:			
At call	22,549	20,420	20,620
Term	25,057	24,481	25,189
Total deposits and other borrowings at amortised cost	51,453	48,358	49,416
Total deposits and other borrowings	52,909	49,665	50,570

The NZ Branch held no retail deposits from individuals as at 31 March 2015 (31 March 2014: nil, 30 September 2014: nil).

Notes to the financial statements

Note 8 Other financial liabilities at fair value through income statement

\$ millions	NZ Banking Group		
	31-Mar-15 Unaudited	31-Mar-14 Unaudited	30-Sep-14 Audited
Held for trading			
Securities sold short	174	657	605
Securities sold under agreements to repurchase	189	545	467
Total other financial liabilities at fair value through income statement	363	1,202	1,072

Note 9 Debt issues

\$ millions	NZ Banking Group		
	31-Mar-15 Unaudited	31-Mar-14 Unaudited	30-Sep-14 Audited
Short-term debt			
Commercial paper	2,997	2,656	3,019
Total short-term debt	2,997	2,656	3,019
Long-term debt			
Non-domestic medium-term notes	3,758	3,808	3,063
Covered Bonds	3,036	2,089	3,360
Domestic medium-term notes	2,893	3,704	3,150
Total long-term debt	9,687	9,601	9,573
Total debt issues	12,684	12,257	12,592
Debt issues at amortised cost	9,687	9,601	9,573
Debt issues at fair value	2,997	2,656	3,019
Total debt issues	12,684	12,257	12,592
Movement in debt issues			
Balance at beginning of the period/year	12,592	11,645	11,645
Issuance during the period/year	4,110	5,055	10,023
Repayments during the period/year	(3,570)	(4,158)	(9,287)
Effect of foreign exchange movements during the period/year	(429)	(267)	218
Effect of fair value movements and amortisation adjustments during the period/year	(19)	(18)	(7)
Balance at end of the period/year	12,684	12,257	12,592

As at 31 March 2015, the NZ Banking Group had no New Zealand Government guaranteed debt on issue (31 March 2014: \$1,824 million, 30 September 2014: nil).

Notes to the financial statements

Note 10 Related entities

Controlled entities of the NZ Banking Group as at 30 September 2014 are set out in Note 25 to the financial statements included in the Overseas Bank's Disclosure Statement for the year ended 30 September 2014.

The total liabilities of the NZ Branch, net of amounts due to related entities as at 31 March 2015, amounted to \$4,933 million (31 March 2014: \$5,153 million, 30 September 2014: \$5,899 million).

Note 11 Fair value of financial instruments

Fair valuation control framework

The NZ Banking Group's control environment uses a well-established Fair Valuation Control Framework to ensure that fair value is either determined or validated by a function that is independent of the party that undertakes the transaction. The method of determining a fair value according to the Fair Valuation Control Framework differs depending on the information available.

Quoted price in an active market

The best evidence of fair value is a quoted price in an active market.

Valuation techniques

Where no direct quoted price in an active market is available, the NZ Banking Group applies present value estimates or other market accepted valuation techniques. The use of a market accepted valuation technique will typically involve the use of a valuation model and appropriate inputs to the model.

The majority of models used by the NZ Banking Group employ only observable market data as inputs. However, for certain financial instruments data may be employed which is not readily observable in current markets. Typically in these instances valuation inputs will be derived using alternative means (including extrapolation from other relevant market data) and tested against historic transactions. The use of these inputs will require a high degree of management judgment.

During the period ended 31 March 2015, consistent with emerging market practice, the NZ Banking Group implemented a Funding Valuation Adjustment ('FVA'). FVA represents an estimate of the adjustment to fair value that a market participant would make to incorporate funding costs and benefits that arise in relation to uncollateralised derivative positions.

Fair value hierarchy

The NZ Banking Group categorises all fair value measurements according to the following fair value hierarchy:

- **Quoted market price ('Level 1')**

Financial instruments valued using recent unadjusted quoted prices in active markets for identical assets or liabilities.
Financial instruments included in the Level 1 category are certain NZ Government securities and spot and exchange traded derivatives (31 March 2014: exchange traded equities, certain NZ Government securities and spot and exchange traded derivatives, 30 September 2014: certain NZ Government securities, spot and exchange traded derivatives).
- **Valuation techniques using observable inputs ('Level 2')**

Valuation techniques utilising observable market prices applied to these assets or liabilities include the use of market standard discounting methodologies, option pricing models and other valuation techniques widely used and accepted by market participants.
Financial instruments included in the Level 2 category are:

 - deposits and other borrowings at fair value, other financial liabilities at fair value through income statement, debt issues at fair value, certain life insurance assets, securities purchased under agreement to resell with related parties, trading and available-for-sale debt securities including certificates of deposit, corporate bonds, mortgage-backed securities, inflation-indexed government bonds, local authority and NZ public securities, off-shore securities and securities purchased under agreement to resell; and
 - derivatives, including interest rate swaps, interest rate forwards, interest rate options, foreign exchange forwards and foreign exchange swaps, with external and related parties.
- **Valuation techniques with significant non-observable inputs ('Level 3')**

Financial instruments valued using at least one input that could have a significant effect on the instrument's valuation which is not based on observable market data (unobservable input). Unobservable inputs are those not readily available in an active market due to illiquidity or complexity of the product. These inputs are generally derived and extrapolated from other relevant market data and calibrated against current market trends and historic transactions.
These valuations are calculated using a high degree of management judgment.
Financial instruments included in the Level 3 category are NZ unlisted equity securities, residential mortgage-backed securities ('RMBS'), long-dated NZD caps, long-dated forward rate agreements and inflation indexed derivative instruments (31 March 2014: NZ unlisted equity securities, long-dated NZD caps, long-dated forward rate agreements and inflation indexed derivative instruments, 30 September 2014: NZ unlisted equity securities, RMBS, long-dated NZD caps and inflation indexed derivative instruments).

A financial instrument's categorisation within the fair value hierarchy is based on the lowest level input that is significant to the fair value measurement.

Notes to the financial statements

Note 11 Fair value of financial instruments (continued)

The following table summarises the attribution of financial instruments measured at fair value to the fair value hierarchy based on the measurement basis after initial recognition:

\$ millions	NZ Banking Group 31-Mar-15 (Unaudited)			Total
	Level 1	Level 2	Level 3 ¹	
Financial assets				
Trading securities and other financial assets designated at fair value	164	3,456	46	3,666
Derivative financial instruments	1	3,411	7	3,419
Available-for-sale securities	2,012	1,466	42	3,520
Life insurance assets	21	225	-	246
Due from related entities	-	737	-	737
Total financial assets carried at fair value	2,198	9,295	95	11,588
Financial liabilities				
Deposits and other borrowings at fair value	-	1,456	-	1,456
Other financial liabilities at fair value through income statement	118	245	-	363
Derivative financial instruments	1	4,992	-	4,993
Debt issues at fair value	-	2,997	-	2,997
Due to related entities	-	880	-	880
Total financial liabilities carried at fair value	119	10,570	-	10,689

\$ millions	NZ Banking Group 31-Mar-14 (Unaudited)			Total
	Level 1	Level 2	Level 3 ¹	
Financial assets				
Trading securities and other financial assets designated at fair value	783	4,344	-	5,127
Derivative financial instruments	1	3,550	1	3,552
Available-for-sale securities	2,027	636	28	2,691
Life insurance assets	22	244	-	266
Due from related entities	-	953	-	953
Total financial assets carried at fair value	2,833	9,727	29	12,589
Financial liabilities				
Deposits and other borrowings at fair value	-	1,307	-	1,307
Other financial liabilities at fair value through income statement	657	545	-	1,202
Derivative financial instruments	1	3,587	3	3,591
Debt issues at fair value	-	2,656	-	2,656
Due to related entities	-	1,132	-	1,132
Total financial liabilities carried at fair value	658	9,227	3	9,888

\$ millions	NZ Banking Group 30-Sep-14 (Audited)			Total
	Level 1	Level 2	Level 3 ¹	
Financial assets				
Trading securities and other financial assets designated at fair value	390	3,078	46	3,514
Derivative financial instruments	11	4,166	3	4,180
Available-for-sale securities	1,975	993	42	3,010
Life insurance assets	31	266	-	297
Due from related entities	-	1,605	-	1,605
Total financial assets carried at fair value	2,407	10,108	91	12,606
Financial liabilities				
Deposits and other borrowings at fair value	-	1,154	-	1,154
Other financial liabilities at fair value through income statement	695	377	-	1,072
Derivative financial instruments	9	4,114	-	4,123
Debt issues at fair value	-	3,019	-	3,019
Due to related entities	-	1,416	-	1,416
Total financial liabilities carried at fair value	704	10,080	-	10,784

¹ Balances within this category of the fair value hierarchy are not considered material to the total Trading securities and other financial assets designated at fair value, total Derivative financial instruments or total Available-for-sale securities balances.

Notes to the financial statements

Note 11 Fair value of financial instruments (continued)

There were no material amounts of changes in fair value estimated using a valuation technique incorporating significant non-observable inputs, that were recognised in the income statement or the statement of comprehensive income of the NZ Banking Group during the six months ended 31 March 2015 (31 March 2014: no material changes in fair value, 30 September 2014: no material changes in fair value).

There have been no significant transfers into/out of Level 1, 2 or 3 during the six months ended 31 March 2015.

Financial instruments not measured at fair value and their estimates of fair value

The following table summarises the carrying amounts and the estimated fair values of the NZ Banking Group's financial instruments not measured at fair value:

\$ millions	NZ Banking Group					
	31-Mar-15 (Unaudited)		31-Mar-14 (Unaudited)		30-Sep-14 (Audited)	
	Total Carrying Amount	Estimated Fair Value	Total Carrying Amount	Estimated Fair Value	Total Carrying Amount	Estimated Fair Value
Financial assets						
Loans	67,108	67,071	63,604	63,420	65,027	64,896
Total financial assets	67,108	67,071	63,604	63,420	65,027	64,896
Financial liabilities						
Deposits and other borrowings	51,453	51,515	48,358	48,412	49,416	49,459
Debt issues	9,687	9,801	9,601	9,734	9,573	9,704
Subordinated debentures	728	723	652	634	710	700
Total financial liabilities	61,868	62,039	58,611	58,780	59,699	59,863

For cash and balances with central banks, due from and due to other financial institutions, non-derivative balances due from and due to related entities which are carried at amortised cost and other types of short-term financial instruments recognised in the balance sheet under 'other assets' and 'other liabilities', the carrying amount is equivalent to fair value. These items are either short-term in nature or reprice frequently, and are of a high credit rating.

Note 12 Commitments and contingent liabilities

\$ millions	NZ Banking Group		
	31-Mar-15 Unaudited	31-Mar-14 Unaudited	30-Sep-14 Audited
Commitments for capital expenditure			
Due within one year	3	3	3
Lease commitments (all leases are classified as operating leases)			
Premises and sites	250	284	277
Motor vehicles	6	8	7
Total lease commitments	256	292	284
Lease commitments are due as follows:			
One year or less	60	60	64
Between one and five years	150	163	162
Over five years	46	69	58
Total lease commitments	256	292	284
Other contingent liabilities and commitments			
Direct credit substitutes	346	335	354
Loan commitments with certain drawdown	233	194	236
Transaction-related contingent items	613	752	602
Short-term, self-liquidating trade-related contingent liabilities	454	417	528
Other commitments to provide financial services	22,402	20,132	21,367
Total other contingent liabilities and commitments	24,048	21,830	23,087

As at 31 March 2015, \$32 million of available-for-sale securities were pledged as collateral for the NZ Banking Group's liabilities under repurchase agreements (31 March 2014: nil, 30 September 2014: \$90 million) which, together with the encumbered Trading securities and other financial assets designated at fair value of \$157 million, are recorded within Other financial liabilities at fair value through income statement of \$189 million (refer to Note 8).

In March 2013, litigation funder, Litigation Lending Services (NZ) Limited, announced potential representative actions against five New Zealand banks in relation to certain fees. Westpac New Zealand is the defendant in proceedings filed on 20 August 2014 by the plaintiff group. Proceedings have also been filed against three other banks. At this stage the impact of the proceedings against Westpac New Zealand cannot be determined with any certainty.

Additional information relating to any provision or contingent liability has not been provided where disclosure of such information might be expected to prejudice seriously the position of the NZ Banking Group.

Note 13 Segment information

The NZ Banking Group operates predominantly in the consumer, business and institutional banking sectors within New Zealand. On this basis, no geographical segment information is provided.

The basis of segment reporting reflects the management of the business, rather than the legal structure of the NZ Banking Group. The operating segment results have been presented on a management reporting basis and consequently internal charges and transfer pricing adjustments have been reflected in the performance of each operating segment. Intersegment pricing is determined on a cost recovery basis.

The NZ Banking Group does not rely on any single major customer for its revenue base.

The NZ Banking Group's operating segments are defined by the customers they serve and the services they provide. The NZ Banking Group has identified the following main operating segments:

- Retail Banking provides financial services predominantly to individuals;
- Business Bank and Wealth provides financial services to small to medium sized enterprise customers and high net worth individuals, and provides funds management and insurance distribution services to a range of customers; and
- Corporate and Institutional provides a broad range of financial services to corporate, agricultural, institutional and government customers, and the supply of derivatives and risk management products to the entire Westpac customer base in New Zealand.

Reconciling items primarily represent:

- business units that do not meet the definition of operating segments under NZ IFRS 8 *Operating Segments*;
- elimination entries on consolidation/aggregation of the results, assets and liabilities of the NZ Banking Group's controlled entities in the preparation of the aggregated financial statements of the NZ Banking Group; and
- results of certain business units excluded for management reporting purposes, but included within the aggregated financial statements of the NZ Banking Group for statutory financial reporting purposes.

Notes to the financial statements

Note 13 Segment information (continued)

\$ millions	NZ Banking Group				Total
	Retail Banking	Business Bank and Wealth	Corporate and Institutional	Reconciling Items ¹	
Six months ended 31 March 2015 (Unaudited)					
Net interest income	398	184	193	91	866
Non-interest income	95	97	86	6	284
Net operating income	493	281	279	97	1,150
Net operating income from external customers	659	307	487	(303)	1,150
Net internal interest expense	(166)	(26)	(208)	400	-
Net operating income	493	281	279	97	1,150
Operating expenses	(78)	(38)	(40)	(286)	(442)
Impairment (charges)/recoveries on loans	(24)	(4)	(11)	8	(31)
Profit before income tax expense	391	239	228	(181)	677
Total gross loans	30,902	15,082	21,648	(63)	67,569
Total deposits and other borrowings	23,967	14,381	13,105	1,456	52,909
Six months ended 31 March 2014 (Unaudited)					
Net interest income	359	168	198	44	769
Non-interest income	97	96	89	54	336
Net operating income	456	264	287	98	1,105
Net operating income from external customers	603	279	477	(254)	1,105
Net internal interest expense	(147)	(15)	(190)	352	-
Net operating income	456	264	287	98	1,105
Operating expenses	(78)	(38)	(40)	(278)	(434)
Impairment charges on loans	(27)	(3)	13	14	(3)
Profit before income tax expense	351	223	260	(166)	668
Total gross loans	29,417	14,332	20,446	(136)	64,059
Total deposits and other borrowings	22,522	13,484	12,352	1,307	49,665
Year ended 30 September 2014 (Audited)					
Net interest income	738	348	396	108	1,590
Non-interest income	198	193	194	92	677
Net operating income	936	541	590	200	2,267
Net operating income from external customers	1,248	587	977	(545)	2,267
Net internal interest expense	(312)	(46)	(387)	745	-
Net operating income	936	541	590	200	2,267
Operating expenses	(156)	(76)	(79)	(557)	(868)
Impairment charges on loans	(36)	(2)	-	12	(26)
Share of profit of associate accounted for using the equity method	-	-	-	1	1
Profit before income tax expense	744	463	511	(344)	1,374
Total gross loans	30,168	14,641	20,764	(104)	65,469
Total deposits and other borrowings	23,212	13,598	12,600	1,160	50,570

¹ Included in the reconciling items for total operating expenses is \$296 million (31 March 2014: \$282 million; 30 September 2014: \$569 million) of head office operating expenses, which are not allocated to a business unit that meets the definition of an operating segment.

Note 14 Insurance business

The following table presents the aggregate amount of the NZ Banking Group's insurance business conducted through one of its controlled entities, Westpac Life-NZ- Limited calculated in accordance with the Overseas Bank's conditions of registration as at the reporting date:

\$ millions	NZ Banking Group
	31-Mar-15 Unaudited
Total assets	190
As a percentage of total assets of the NZ Banking Group	0.23%

Note 15 Risk management

15.1 Credit risk

The NZ Banking Group's residential mortgages by loan-to-value ratio ('LVR') as at 31 March 2015 (Unaudited)

In order to calculate origination LVR, the current exposure is that used in the internal ratings based approach for mortgage lending. For loans originated from 1 January 2008, the NZ Banking Group utilises its loan origination system. For loans originated prior to 1 January 2008, the origination LVR is not separately recorded, and therefore, is not available for disclosure as required under Clause 1 of Schedule 9 to the Order. For these loans, the NZ Banking Group utilises its dynamic LVR process to calculate an origination LVR. Exposures for which no LVR is available have been included in the 'Exceeds 90%' category in accordance with the requirements of the Order.

LVR range (\$ millions)	NZ Banking Group 31-Mar-15 (Unaudited)			Total
	Does not Exceed 80%	Exceeds 80% and not 90%	Exceeds 90%	
On-balance sheet exposures	33,142	5,209	2,267	40,618
Undrawn commitments and other off-balance sheet exposures	7,438	425	156	8,019
Value of exposures	40,580	5,634	2,423	48,637

NZ Banking Group's reconciliation of residential mortgage-related amounts

The table below provides the NZ Banking Group's reconciliation of amounts disclosed in this Disclosure Statement that relate to mortgages on residential property.

\$ millions	NZ Banking Group 31-Mar-15 Unaudited
Term loans - Housing (as disclosed in Note 5) and Residential mortgages - total gross loans (as disclosed in Note 6)	40,800
<i>Reconciling items:</i>	
Unamortised deferred fees and expenses	(145)
Fair value hedge adjustments	(37)
Value of undrawn commitments and other off-balance sheet amounts relating to residential mortgages	8,019
Residential mortgages by LVR	48,637

15.2 Market risk

Market risk notional capital charges

The NZ Banking Group's aggregate market risk exposure is derived in accordance with the Reserve Bank document 'Capital Adequacy Framework (Standardised approach) (BS2A)'.

For each category of market risk, the NZ Banking Group's peak end-of-day aggregate capital charge is derived by determining the maximum over the six-month period ended 31 March 2015 of the aggregate capital charge for that category of market risk at the close of each business day derived in accordance with the Reserve Bank document 'Capital Adequacy Framework (Standardised Approach) (BS2A)'.

The following table provides a summary of the NZ Banking Group's notional capital charges by risk type as at the reporting date and the peak end-of-day notional capital charges by risk type for the six-month period ended 31 March 2015:

\$ millions	NZ Banking Group 31-Mar-15 (Unaudited)	
	Implied Risk-weighted Exposure	Notional Capital Charge
End-of-period		
Interest rate risk	3,000	240
Foreign currency risk	25	2
Equity risk	42	3
	3,067	245
Peak end-of-day		
Interest rate risk	4,825	386
Foreign currency risk	113	9
Equity risk	42	3

Notes to the financial statements

Note 15 Risk management (continued)

Interest rate sensitivity

The following table presents a breakdown of the earlier of the contractual repricing or maturity dates of the NZ Banking Group's net asset position as at 31 March 2015. The NZ Banking Group uses this contractual repricing information as a base, which is then altered to take account of consumer behaviour, to manage its interest rate risk.

\$ millions	NZ Banking Group 31-Mar-15 (Unaudited)						Total
	Up to 3 Months	Over 3 Months and up to 6 Months	Over 6 Months and up to 1 Year	Over 1 Year and up to 2 Years	Over 2 Years	Non-interest Bearing	
Financial assets							
Cash and balances with central banks	1,374	-	-	-	-	226	1,600
Due from other financial institutions	646	-	-	-	-	-	646
Trading securities and other financial assets designated at fair value	2,866	55	417	2	326	-	3,666
Derivative financial instruments	-	-	-	-	-	3,419	3,419
Available-for-sale securities	404	-	-	338	2,736	42	3,520
Loans	37,075	4,334	5,488	13,500	7,172	(461)	67,108
Life insurance assets	22	5	-	-	-	219	246
Due from related entities	465	-	-	-	-	745	1,210
Other assets	-	-	-	-	-	262	262
Total financial assets	42,852	4,394	5,905	13,840	10,234	4,452	81,677
Non-financial assets							1,114
Total assets							82,791
Financial liabilities							
Due to other financial institutions	346	-	-	-	-	13	359
Deposits and other borrowings	36,346	6,404	4,427	1,166	719	3,847	52,909
Other financial liabilities at fair value through income statement	363	-	-	-	-	-	363
Derivative financial instruments	-	-	-	-	-	4,993	4,993
Debt issues	5,532	1,403	31	2,737	2,981	-	12,684
Other liabilities	-	-	-	-	-	418	418
Subordinated debentures	-	-	728	-	-	-	728
Due to related entities	3,441	-	-	-	-	933	4,374
Total financial liabilities	46,028	7,807	5,186	3,903	3,700	10,204	76,828
Non-financial liabilities							198
Total liabilities							77,026
On balance-sheet interest rate repricing gap	(3,176)	(3,413)	719	9,937	6,534		
Net derivative notional principals							
Net interest rate contracts (notional):							
Receivable/(payable)	15,233	2,089	(4,162)	(6,971)	(6,189)		
Net interest rate repricing gap	12,057	(1,324)	(3,443)	2,966	345		

15.3 Liquidity risk

Liquid assets

The table below shows the NZ Banking Group's holding of liquid assets and represents the key liquidity information provided to management. Liquid assets include high quality assets readily convertible to cash to meet the NZ Banking Group's liquidity requirements. In management's opinion, liquidity is sufficient to meet the NZ Banking Group's present requirements.

\$ millions	NZ Banking Group 31-Mar-15 Unaudited
Cash and balances with central banks	1,600
Due from other financial institutions	30
Supranational securities	929
NZ Government securities	2,486
NZ public securities	1,028
NZ corporate securities	2,051
Residential mortgage-backed securities	3,992
Total liquid assets	12,116

Notes to the financial statements

Note 15 Risk management (continued)

Liquidity analysis

The following liquidity analysis for financial assets and financial liabilities presents the contractual undiscounted cash flows receivable and payable, and is based on the remaining period as at the reporting date to the contractual maturity. The total balances in the table below may not agree to the balance sheet totals as this table incorporates all cash flows on an undiscounted basis, which include both principal and associated future interest income/expense accruals.

NZ Banking Group 31-Mar-15 (Unaudited)							
\$ millions	On Demand	Less Than 1 Month	1 Month to 3 Months	3 Months to 1 Year	1 Year to 5 Years	Over 5 Years	Total
Financial assets							
Cash and balances with central banks	1,600	-	-	-	-	-	1,600
Due from other financial institutions	20	626	-	-	-	-	646
Trading securities and other financial assets designated at fair value	-	440	1,903	499	686	347	3,875
Derivative financial instruments:							
Held for trading	3,277	-	-	-	-	-	3,277
Held for hedging purposes (net settled)	-	15	20	32	30	-	97
Held for hedging purposes (gross settled):							
Cash outflow	-	(440)	(9)	(409)	(56)	(313)	(1,227)
Cash inflow	-	449	-	424	8	326	1,207
Available-for-sale securities	42	410	28	111	2,896	425	3,912
Loans	5,555	6,574	5,222	6,139	24,294	56,138	103,922
Life insurance assets	219	7	15	5	-	-	246
Due from related entities:							
Non-derivative balances	9	464	-	-	-	-	473
Derivative financial instruments:							
Held for trading	737	-	-	-	-	-	737
Other assets	-	94	-	-	-	-	94
Total undiscounted financial assets	11,459	8,639	7,179	6,801	27,858	56,923	118,859
Financial liabilities							
Due to other financial institutions	295	64	-	-	-	-	359
Deposits and other borrowings	26,490	4,025	9,937	11,213	2,045	-	53,710
Other financial liabilities at fair value through income statement	211	152	-	-	-	-	363
Derivative financial instruments:							
Held for trading	3,717	-	-	-	-	-	3,717
Held for hedging purposes (net settled)	-	24	2	105	261	12	404
Held for hedging purposes (gross settled):							
Cash outflow	-	10	86	1,067	6,684	-	7,847
Cash inflow	-	(2)	(65)	(781)	(5,522)	-	(6,370)
Debt issues	-	556	598	3,018	8,830	326	13,328
Other liabilities	-	87	-	-	-	-	87
Subordinated debentures	-	-	-	-	-	701	701
Due to related entities:							
Non-derivative balances	3,442	48	-	-	4	-	3,494
Derivative financial instruments:							
Held for trading	880	-	-	-	-	-	880
Total undiscounted financial liabilities	35,035	4,964	10,558	14,622	12,302	1,039	78,520
Total contingent liabilities and commitments							
Loan commitments with certain drawdown	233	-	-	-	-	-	233
Other commitments to provide financial services	22,402	-	-	-	-	-	22,402
Total undiscounted contingent liabilities and commitments	22,635	-	-	-	-	-	22,635

Notes to the financial statements

Note 16 Concentration of funding

	NZ Banking Group
	31-Mar-15
\$ millions	Unaudited
Funding consists of	
Due to other financial institutions	359
Deposits and other borrowings	52,909
Other financial liabilities at fair value through income statement	363
Debt issues ¹	12,684
Subordinated debentures	728
Due to related entities ²	3,478
Total funding	70,521
Analysis of funding by geographical areas¹	
New Zealand	53,166
Australia	4,393
United Kingdom	6,269
United States of America	3,985
Other	2,708
Total funding	70,521
Analysis of funding by industry sector	
Accommodation, cafes and restaurants	290
Agriculture	1,254
Construction	1,347
Finance and insurance	24,563
Forestry and fishing	177
Government, administration and defence	1,488
Manufacturing	1,489
Mining	67
Property services and business services	5,011
Services	4,151
Trade	1,501
Transport and storage	318
Utilities	523
Households	21,036
Other	3,828
Subtotal	67,043
Due to related entities ²	3,478
Total funding	70,521

¹ The geographic region used for debt issues is based on the nature of the debt programmes. The nature of the debt programmes is used as a proxy for the location of the original purchaser. Where the nature of the debt programme does not necessarily represent an appropriate proxy, the debt issues are classified as 'Other.' These instruments may have subsequently been on-sold.

² Amounts due to related entities, as presented above, are in respect of intra group deposits and borrowings and exclude amounts which relate to intra group derivatives and other liabilities.

Australian and New Zealand Standard Industrial Classifications ('ANZSIC') have been used as the basis for disclosing industry sectors.

Note 17 Concentration of credit exposures

	NZ Banking Group 31-Mar-15 Unaudited
\$ millions	
On-balance sheet credit exposures consists of	
Cash and balances with central banks	1,600
Due from other financial institutions	646
Trading securities and other financial assets designated at fair value	3,666
Derivative financial instruments	3,419
Available-for-sale securities	3,520
Loans	67,108
Life insurance assets	27
Due from related entities	1,210
Other assets	262
Total on-balance sheet credit exposures	81,458
Analysis of on-balance sheet credit exposures by industry sector	
Accommodation, cafes and restaurants	568
Agriculture	7,198
Construction	1,342
Finance and insurance	8,927
Forestry and fishing	364
Government, administration and defence	5,960
Manufacturing	3,006
Mining	502
Property	11,998
Property services and business services	2,167
Services	2,479
Trade	3,365
Transport and storage	1,440
Utilities	1,646
Retail lending	29,554
Other	126
Subtotal	80,642
Provisions for impairment charges on loans	(461)
Due from related entities	1,210
Other assets	67
Total on-balance sheet credit exposures	81,458
Off-balance sheet credit exposures	
Contingent liabilities and commitments	24,048
Total off-balance sheet credit exposures	24,048
Analysis of off-balance sheet credit exposures by industry sector	
Accommodation, cafes and restaurants	110
Agriculture	774
Construction	566
Finance and insurance	2,491
Forestry and fishing	53
Government, administration and defence	894
Manufacturing	1,754
Mining	118
Property	1,877
Property services and business services	804
Services	1,313
Trade	2,873
Transport and storage	658
Utilities	1,703
Retail lending	8,045
Other	15
Total off-balance sheet credit exposures	24,048

ANZSIC have been used as the basis for disclosing industry sectors.

Notes to the financial statements

Note 17 Concentration of credit exposures (continued)

Analysis of credit exposures to individual counterparties

The following credit exposures are based on actual credit exposures to individual counterparties and groups of closely related counterparties.

The number of individual bank counterparties (which are not members of a group of closely related counterparties), and groups of closely related counterparties of which a bank is the parent, to which the NZ Banking Group has an aggregate credit exposure or peak end-of-day aggregate credit exposure that equals or exceeds 10% of the Overseas Banking Group's equity:

- as at 31 March 2015 was nil; and
- in respect of peak end-of-day aggregate credit exposure for the three months ended 31 March 2015 was nil.

The number of individual non-bank counterparties (which are not members of a group of closely related counterparties), and groups of closely related counterparties of which a bank is not the parent, to which the NZ Banking Group has an aggregate credit exposure or peak-end-of day aggregate credit exposure that equals or exceeds 10% of the Overseas Banking Group's equity:

- as at 31 March 2015 was nil; and
- in respect of peak end-of-day aggregate credit exposure for the three months ended 31 March 2015 was nil.

The peak end-of-day aggregate credit exposures have been calculated by determining the maximum end-of-day aggregate amount of actual credit exposure over the relevant three-month period and then dividing that amount by the Overseas Banking Group's equity as at the end of the period.

Credit exposures to individual counterparties (not being members of a group of closely related counterparties) and to groups of closely related counterparties exclude exposures to the central government of any country with a long-term credit rating of A- or A3 or above, or its equivalent, or to any bank with a long-term credit rating of A- or A3 or above, or its equivalent. These calculations relate only to exposures held in the financial records of the NZ Banking Group (excluding exposures booked outside New Zealand) and were calculated net of individually assessed provisions.

Note 18 Overseas Bank and Overseas Banking Group capital adequacy

The table below represents the capital adequacy calculation for the Overseas Banking Group and Overseas Bank based on the Australian Prudential Regulation Authority's ('APRA') application of the Basel III capital adequacy framework.

%	31-Mar-15 Unaudited	31-Mar-14 Unaudited
Overseas Banking Group ^{1,2}		
Common Equity Tier One Capital ratio	8.8	8.8
Additional Tier One Capital ratio	1.5	1.5
Tier One Capital ratio	10.3	10.3
Tier Two Capital ratio	1.8	1.8
Total Regulatory Capital ratio	12.1	12.1
Overseas Bank (Extended Licensed Entity) ^{1,2}		
Common Equity Tier One Capital ratio	8.7	8.9
Additional Tier One Capital ratio	1.7	1.7
Tier One Capital ratio	10.4	10.6
Tier Two Capital ratio	2.1	2.0
Total Regulatory Capital ratio	12.5	12.6

¹ The capital ratios represent information mandated by APRA.

² The capital ratios of the Overseas Banking Group and the Overseas Bank (Extended Licensed Entity) are publicly available in the Overseas Banking Group's Pillar 3 report. This information is made available to users via the Overseas Bank's website (www.westpac.com.au).

The Overseas Banking Group is accredited by APRA to apply the Advanced Internal Ratings Based ('Advanced IRB') approach for credit risk, the Advanced Measurement Approach ('AMA') for operational risk and the internal model approach for interest rate risk in the banking book for calculating regulatory capital (known as 'Advanced Accreditation') and is required by APRA to hold minimum capital at least equal to that specified under the Advanced IRB and AMA methodologies. Under New Zealand regulations this methodology is referred to as the Basel III (internal models based) approach. With this accreditation, the Overseas Banking Group is required to disclose additional detailed information on its risk management practices and capital adequacy on a quarterly and a semi-annual basis. This information is made available to users via the Overseas Banking Group's website (www.westpac.com.au). The aim is to allow the market to better assess the Overseas Banking Group's risk and reward assessment process and hence increase the scrutiny of this process.

The Overseas Banking Group, and the Overseas Bank (Extended Licensed Entity as defined by APRA), exceeded the minimum capital adequacy requirements as specified by APRA as at 31 March 2015. APRA specifies a minimum prudential capital ratio for the Overseas Banking Group, which is not made publicly available.

Notes to the financial statements

Note 19 Other information on the Overseas Banking Group

Other information on the Overseas Banking Group is from the most recently published financial statements of the Overseas Banking Group for the six months ended 31 March 2015.

	31-Mar-15
Profitability	Unaudited
Net profit after tax for the six months ended 31 March 2015 (A\$ millions)	3,642
Net profit after tax (for the 12 month period to 31 March 2015) as a percentage of average total assets	1.0%

	31-Mar-15
Total assets and equity	Unaudited
Total assets (A\$ millions)	795,961
Percentage change in total assets for the 12 months ended 31 March 2015	9.1%
Total equity (A\$ millions)	50,317

	31-Mar-15
Asset quality	Unaudited
Total individually impaired assets ^{1,2} (A\$ millions)	2,148
As a percentage of total assets	0.3%
Total individual credit impairment allowance ³ (A\$ millions)	1,027
As a percentage of total individually impaired assets	47.8%
Total collective credit impairment allowance ³ (A\$ millions)	2,699

¹ Total individually impaired assets are before allowances for credit impairment loss and net of interest held in suspense. Total individually impaired assets includes A\$481 million of assets which are determined to be impaired, but which are not individually significant, and therefore have been grouped into pools of assets for the purpose of collectively calculating an impairment provision.

² Non-financial assets have not been acquired through the enforcement of security.

³ Total individual credit impairment allowance and total collective credit impairment allowance include A\$221 million of credit impairment allowance that has been calculated collectively on groups of assets which have been determined to be impaired, but which are not individually significant.

Note 20 Events after the reporting date

On 17 April 2015, Westpac New Zealand sold its NZ unlisted equity instruments within Available-for-sale securities realising a gain of \$19 million.

On 28 April 2015 Westpac New Zealand assigned to Westpac NZ Covered Bond Limited ('WNZCBL') under the CB Programme a further \$1,000 million of housing loans such that WNZCBL now has a portfolio of housing loans up to a value of \$5,500 million. There has been a corresponding increase in the intercompany loan made by Westpac New Zealand to WNZCBL.



Independent Auditors' Review Report

To the Directors of Westpac Banking Corporation

Report on the Financial Statements

We have reviewed pages 4 to 25 of the half year Disclosure Statement of Westpac Banking Corporation – New Zealand Banking Group (the “NZ Banking Group”), which consists of the financial statements required by Clause 26 of the Registered Bank Disclosure Statements (Overseas Incorporated Registered Banks) Order 2014 (the “Order”) and the supplementary information required by Schedules 5, 7, 9, 10, 12 and 14 of the Order. The financial statements comprise the balance sheet as at 31 March 2015, the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the six months then ended, and the notes to the financial statements that include a statement of accounting policies and other explanatory information for the NZ Banking Group.

Directors' Responsibility for the Financial Statements

The Directors of Westpac Banking Corporation (the “Directors”) are responsible for the preparation and presentation of the half year Disclosure Statement, which includes financial statements prepared in accordance with Clause 26 of the Order and that present fairly the financial position of the NZ Banking Group as at 31 March 2015, and its financial performance and cash flows for the period ended on that date. The Directors are also responsible for such internal controls as the Directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In addition, the Directors are responsible for the preparation and fair presentation of supplementary information in the half year Disclosure Statement which complies with Schedules 3, 5, 7, 9, 10, 12 and 14 of the Order.

Our Responsibility

Our responsibility is to express a conclusion on the financial statements and the supplementary information, disclosed in accordance with Clause 26 and Schedules 5, 7, 9, 10, 12 and 14 of the Order, presented by Directors, based on our review.

Our responsibility is to express a conclusion on the financial statements (excluding the supplementary information) whether, in our opinion on the basis of the procedures performed by us, anything has come to our attention that would cause us to believe that the financial statements have not been prepared, in all material respects, in accordance with New Zealand Equivalent to International Accounting Standard 34: *Interim Financial Reporting* and International Accounting Standard 34: *Interim Financial Reporting*.

Our responsibility is to express a conclusion on the supplementary information (excluding the supplementary information relating to capital adequacy) whether, in our opinion on the basis of the procedures performed by us, anything has come to our attention that would cause us to believe that the supplementary information does not fairly state the matters to which it relates in accordance with Schedules 5, 7, 10, 12 and 14 of the Order.

Our responsibility is to express a conclusion on the supplementary information relating to credit and market risk exposures and capital adequacy whether, in our opinion on the basis of the procedures performed by us, anything has come to our attention that would cause us to believe that the supplementary information is not in all material respects:

- (a) prepared in accordance with Capital Adequacy Framework (Standardised Approach) (BS2A); and
- (b) disclosed in accordance with Schedule 9 of the Order.

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Independent Auditors' Review Report

Westpac Banking Corporation

We conducted our review in accordance with the New Zealand Standard on Review Engagements 2410 *Review of Financial Statements Performed by the Independent Auditor of the Entity* ("NZ SRE 2410"). As the auditors of the NZ Banking Group, NZ SRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial statements.

A review in accordance with NZ SRE 2410 is a limited assurance engagement. The auditor performs procedures, primarily consisting of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with International Standards on Auditing (New Zealand) and International Standards on Auditing. Accordingly we do not express an audit opinion on the financial statements.

We are independent of the NZ Banking Group. We carry out other assignments on behalf of the NZ Banking Group in the areas of other assurance and advisory services. In addition, certain partners and employees of our firm may deal with the NZ Banking Group and Westpac Banking Corporation Group on normal terms within the ordinary course of trading activities of the NZ Banking Group and Westpac Banking Corporation Group. These matters have not impaired our independence as auditors of the Banking Group. We have no other interests in the NZ Banking Group or Westpac Banking Corporation Group.

Opinion

Based on our review, nothing has come to our attention that causes us to believe that:

- (a) the financial statements on pages 4 to 25 (excluding the supplementary information) have not been prepared, in all material respects, in accordance with New Zealand Equivalent to International Accounting Standard 34: *Interim Financial Reporting* and International Accounting Standard 34: *Interim Financial Reporting*;
- (b) the supplementary information prescribed by Schedules 5, 7, 10, 12 and 14 of the Order, does not fairly state the matters to which it relates in accordance with those Schedules; and
- (c) the supplementary information relating to credit and market risk exposures and capital adequacy prescribed by Schedule 9 of the Order, is not, in all material respects:
 - (i) prepared in accordance with Capital Adequacy Framework (Standardised Approach) (BS2A); and
 - (ii) disclosed in accordance with Schedule 9 of the Order.

Restriction on Use of our Report

This report is made solely to the Directors, as a body. Our review work has been undertaken so that we might state to the Directors those matters which we are required to state to them in a review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the NZ Banking Group and the Directors, as a body, for our review procedures, for this report or for the opinions we have formed.

A handwritten signature in dark ink, appearing to read 'PricewaterhouseCoopers', is written over a light blue circular stamp.

Chartered Accountants
26 May 2015

Auckland

